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CHARITABLE DONATIONS CAN LOWER TAX BILLS; SIMPLE STEPS CAN HELP

WASHINGTON – As the end of the year quickly approaches, the Internal Revenue Service reminds taxpayers that they may be able to use their gifts to tax-exempt charitable and religious groups to reduce their taxes.

Taxpayers also need to keep in mind some simple steps to make sure they get appropriate benefit for their generous donations. In particular, there are some important guidelines for donating used cars and other property, such as stocks and bonds.

"We want people to be focused on helping these worthy groups rather than worrying about tax issues," said Bob Wenzel, Acting IRS Commissioner. "A few simple steps can help avoid tax headaches."

The tax benefit for charitable contributions is only available for taxpayers who itemize deductions – about one-third of all filers. Those who take a standard deduction receive no additional tax benefit for their contributions.

In 1999, the last year for which complete data is available, about 35.5 million taxpayers made deductible charitable contributions totaling nearly $125.8 billion. Of these gifts, nearly $88.3 billion were cash donations.

Only contributions actually made during the tax year are deductible. For example, if you pledged $500 in September but paid the charity only $200 by Dec. 31, your 2002 deduction would be $200. You include credit card charges and payments by check in the year they are given to the charity, even though you may not pay the credit card bill or have your bank account debited until the next year.

Those itemizing deductions reduce their taxable income by the total contributed to qualified tax-exempt organizations, with some limits. The tax saving usually equals the deduction times the marginal tax rate – the top rate for the person's income level.

For example, an individual with a taxable income of $50,000 donates $2,000 to his or her church. The tax savings from this generosity will be $540 – $2,000 times the taxpayer's marginal tax rate of 27 percent.

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Donations of stock or other property are usually valued at the fair market value of the property. For stocks and bonds with an active market, the fair market value is the average price between highest and lowest selling price on the valuation date.

Figuring the value of other personal property can be more complicated. For example, determining the value of a donated used car requires weighing several factors. Some car donation program operators have mistakenly suggested that donors can take as a deduction the full value listed in an established used car pricing guide.

The tax law, however, allows a deduction for only the fair market value of the car. Fair market value takes into account not only the year, the model and the mileage of the car, but also the local market and the vehicle's condition. As a result, the fair market value of the taxpayer's car may be substantially different than the average price listed in an established used car guide.

The IRS also reminds taxpayers to keep appropriate records to substantiate the value of their gifts. For example, for any single gift of $250 or more, a taxpayer must have a written acknowledgement from the charity by the earlier of the date the person files the tax return or the filing deadline, including extensions. A person donating property valued at more than $5,000 must obtain a qualified written appraisal.

Taxpayers can find help regarding the donations they make in IRS Publication 526, "Charitable Contributions." A second reference, IRS Publication 561, "Determining the Value of Donated Property," answers many of the questions that donors have when they make noncash contributions. Both publications are available at the IRS Web site, *www.irs.gov*, or by calling 1-800-TAX-FORM (1-800-829-3676).

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